



Report of the auditor-general to the Limpopo Provincial Legislature and the council on Greater Giyani Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Greater Giyani Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I identified land belonging to the municipality that was not accounted for in the accounting records of the municipality. Furthermore I identified that the valuation method applied on some of these properties owned by the municipality on initial recognition was not in accordance with SA standards of GRAP 17, *Property, plant and equipment*, resulting in incorrect values being derived. As the municipality did not have an adequate system of recording and I could not confirm these values by alternative means. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment stated at R 524 131 955 (2015: R 449 848 012) as disclosed in the financial statements were necessary.
7. The municipality did not review the useful lives of property, plant and equipment at each reporting date in accordance with the Standards of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. The municipality's records did not permit the application of alternative audit procedures. Consequently, the impact on the carrying value of property, plant and equipment and the corresponding effect on accumulated surplus in terms of GRAP 3, *Accounting policies, change in accounting estimates and errors* as disclosed in note 3 to the statement of financial position could not be determined.
8. There is an unexplained difference of R42 821 677 between the balance of property, plant and equipment disclosed in note 3 to the annual financial statements and the underlying accounting records. Consequently, property, plant and equipment is misstated by R 42 821 677. I could not determine the effect on the other account balances or class of transactions contained in the financial statements.

Cash flow statement

9. The financial statements were materially misstated due to material uncorrected misstatements in the following items disclosed in the cash flow statement:
- Receipts from operating activities were understated by R520 151.
 - Payments from operating activities were overstated by R3 871 501.
 - Purchases from investing activities were understated by R 6 330 615
 - Changes in working capital from operating activities were overstated by R7 246 250

Qualified opinion

10. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Greater Giyani Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

12. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material impairments

13. As disclosed in note 27 to the financial statements, the municipality reviewed its basis for debt impairment calculation and wrote back impaired debt to the amount of R7 245 980.

Unauthorised expenditure

14. As disclosed in note 39 to the financial statements, unauthorised expenditure amounting to R13 137 141 has been incurred by the municipality, due to expenditure incurred in excess of the limits of the amounts provided for in the votes of the approved budget.

Irregular expenditure

15. As disclosed in note 41 to the annual financial statement, irregular expenditure to the amount of R2 141 430 was incurred in the current year as the municipality procured goods and service without following supply chain management regulations.

Additional matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

17. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

18. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priority presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

20. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2016
- Key Performance Area (KPA 3): Infrastructure development and basic services on pages x to x.
21. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priority. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. I did not identify any material findings on the usefulness and reliability of the reported performance information for the development priority listed above.

Additional matter

24. I draw attention to the following matters:

Unaudited supplementary information

25. The supplementary information set out on pages x and x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.

Achievement of planned targets

26. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year.

Compliance with legislation

27. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, and expenditure identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

29. Awards were made to providers who are in the service of other state institutions, in contravention of MFMA 112(j) and *Supply Chain Management Regulation* (SCM regulations) 44.

30. Persons in the service of the municipality who had business interest in contracts awarded by the municipality failed to disclose such interest, as required by the code of conduct for staff members issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

31. A person in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2) (e) and the code of conducts for staff members issued in terms of the MSA.

32. Invitations for competitive bidding were not always advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).

Expenditure management

33. Reasonable steps were not taken to prevent unauthorised and irregular expenditure as required by section 62(1) (d) of the MFMA.

Asset management

34. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the MFMA.
35. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2) (c) of the MFMA.

Internal control

36. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

37. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not adequately exercised.
38. Actions plans were developed however; they were not fully implemented, reviewed and monitored during the course of the year resulting in recurring findings from the prior year.
39. The accounting officer did not effectively manage its human resources to ensure that adequate and sufficiently skilled resources are in place.
40. There was no detailed review of the financial statements and the annual performance report, resulting in several misstatements identified and corrected during the audit process.

Financial and performance management

41. Controls over daily and monthly processing and reconciling of transactions were not implemented by the accounting officer.
42. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.

Governance

43. Management did not adequately follow up on the implementation of internal and external audit recommendations to address the audit findings.
44. The risk management strategy implemented by the municipality was not effective to prevent a recurring qualification on the department's movable assets.

Other reports

45. I draw attention to the following engagement that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

46. An independent investigation was performed at the request of the municipality. The investigation was initiated based on allegations of abuse of the municipality's fuel cards. The investigation was concluded after year-end and disciplinary proceedings against officials involved are currently in progress.

Auditor General
Polokwane

26 January 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence